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Hangzhou Zhang Xiaoquan Group Co., Ltd. v. Shanghai Zhang Xiaoquan Knife and Scissors General Store

Citation: The Shanghai Higher People's Court's Civil Judgment No. Hugaominsan(zhi)zhongzi 27/2004

Date of judgment: July 19, 2004

Procedural history

The Hangzhou Zhang Xiaoquan Group Co., Ltd. (Hangzhou Zhang Xiaoquan), former Hongzhou Zhang Xiaoquan Knife and Scissors Plant, sued, in the Shanghai No. 2 Intermediate People's Court, the Shanghai Zhang Xiaoquan Shanghai Knife and Scissors General Store (the Shanghai General Store) and the Shanghai Zhang Xiaoquan Knife and Scissors Manufacturing Co., Ltd. (the Shanghai Zhang Xiaoquan) for infringement of its series of "Zhang Xiaoquan brand" trademarks and for unfair competition. In the first-instance judgment, it was held that no trademark infringement and unfair competition were constituted, and the marks in suit should be used in a regulated manner. The Hangzhou Zhang Xiaoquan appealed to the Shanghai Higher People's Court.

Issue

1. Did it constitute trademark infringement if a trade name with a long history used by an enterprise was similar to the registered trademarks of another enterprise having the same trade name?
2. Did it constitute trademark infringement and unfair competition if an enterprise conspicuously used its trade name with a long history, with the highlighted part being identical with the registered trademarks of another party?

Facts

The “Zhang Xiaoquan” trade name was first used in Hongzhou with a history of over 300 years. According to the historical records, in 1950 in Shanghai, dozens of Shanghai Zhang Xiaoquan knife and scissors stores jointly made and signed the statement on using the identical mark and name that “the ‘Zhang Xiaoquan’ brand had been in use for such a long time that it was difficult for any change to take place in the use of it, so it would be jointly used by them all”. In 1953, the Hangzhou Government incorporated all the local knife and scissors workshops into five Zhang Xiaoquan scissors manufacturing cooperatives.

In 1964, the Hangzhou Zhang Xiaoquan secured the registration of the “Zhang Xiaoquan brand” mark composed of the combination of the words Zhang Xiaoquan and scissors devices, the “Zhang Xiaoquan brand” mark in 1981, and “Zhang Xiaoquan” word mark in 1991. The “Zhang Xiaoquan brand” was established as a well-known mark by the Trademark Office in 1997.

Set up in 1956, Shanghai General Store changed its trade name repeatedly, but kept the words “Zhang Xiaoquan knife and scissors”. It was awarded the title of “store of long history in China”. In 1998, it invested in 90% of the share and set up the Shanghai Zhang Xiaoquan with another party. Ever since its establishment, Shanghai General Store had been using the words “Shanghai Zhang Xiaoquan” and “Zhang Xiaoquan” in its products and the outer package thereof.

The first-instance court held that, for the historical reasons, in the present case, the enterprise of the Shanghai General Store was registered earlier, the Hangzhou Zhang Xiaoquan should not pose the trademark right it obtained later against the enterprise name Shanghai General Store used earlier. The Shanghai Zhang Xiaoquan was an extension and development of the Shanghai General Store, and the words “Zhang Xiaoquan” used in its enterprise name was a reasonable and proper expansion. The two parties should not further extend the use of “Zhang Xiaoquan” trade name in their future activities, such as enterprise assignment and investment; if the Shanghai General Store was no longer the shareholder of the Shanghai Zhang Xiaoquan, the latter should stop using the words “Zhang Xiaoquan”. The Shanghai General Store used the words “Zhang Xiaoquan” in its products in good faith, and gained certain reputation. An enterprise was permitted under law to use its simplified name and trade name. Therefore, the Shanghai General Store did not infringe the

trademark in suit, nor did it commit unfair competition, but it should use its registered trade name in a regulated manner.

The Hangzhou Zhang Xiaoquan appealed, arguing that the value of the brand “Zhang Xiaoquan” knife and scissors products was the result of the constant corporate efforts; the fact that the Shanghai General Store had been conspicuously using the words “Zhang Xiaoquan” could not be the ground for legitimizing its use of the mark in suit. Since Hangzhou Zhang Xiaoquan’s trademark was very famous, by conspicuous use thereof, the Shanghai General Store had the bad faith to take advantage of its fame, and such act constituted unfair competition.

The two enterprises argued in defense that there were once several hundreds of enterprises with the “Zhang Xiaoquan” trade name, and “Zhang Xiaoquan” had become the name for the whole industry. The Shanghai General Store’s use of the “Zhang Xiaoquan” trade name was reasonable and justifiable; hence, Shanghai Zhang Xiaoquan’s continued use of its investor’s trade name in its enterprise name was in compliance with the Company Law and other pertinent laws and regulations.

Rule of law

Article 26, paragraph one, of the Trademark Law as of 1993 *A Trademark registrant may, by concluding a trademark licensing contract, authorize another person to use its registered trademark. The Licensor shall supervise the quality of the goods on which the licensee uses the licensor’s registered trademark, and the licensee shall guarantee the quality of the goods on which the registered trademark is to be used.*

Article 38 (1) of the Trademark Law as of 1993 *Any of the following acts shall be infringement of the exclusive right to use a registered trademark: (1) using a trademark which is identical with or similar to the registered trademark in the identical or similar goods without authorization from the owner of that registered trademark.*

Article 5 of the Unfair Competition Law *A business operator shall not harm his competitors in market transaction by resorting to any of the following unfair means: …(2) using for a commodity*

without authorization the name, package, or trade dress particular to another party's famous commodity, or using a name, package or trade dress similar to that of another's famous commodity, thereby confusing the commodity with that famous commodity and leading the purchasers to mistake the former for the latter;

Reasoning

What was at issue in the present case was how to use, in a regulated manner under the market economic conditions, a national and traditional brand and the trade name of the store with long history in China obtained under the planned economic system and how to carry on fair competition. The “Zhang Xiaoquan” brand scissors had a history of over 300 years. Many enterprises, including those based in Shanghai and Hangzhou, all had contributed to the generation and growth of the good repute of the “Zhang Xiaoquan” brand. With so many various historical factors involved, the dispute should be fairly and rationally solved by taking full account of, and showing deference to, these historical factors, and by following the legal principles of fairness, honesty and credibility, and protecting the prior right, in an effort to spur the healthy development of the national and traditional brand “Zhang Xiaoquan” and the trade name of the store with long history in China.

1. Enterprise trade name

The Shanghai General Store obtained the “Zhang Xiaoquan” trade name much earlier than the Hangzhou Zhang Xiaoquan was granted the registration of the trademark “Zhang Xiaoquan”, and had the mark established as a well-known mark. Under the doctrine of protecting the prior right, the Hangzhou Zhang Xiaoquan was not in a position to prevent the Shanghai General Store from its continued use of the trade name obtained earlier on the account of the trademark right it obtained later. For this reason, the Shanghai General Store's use of the words “Zhang Xiaoquan” in its enterprise name did not constitute trademark infringement.

The Shanghai General Store obtained the trade name earlier, and said trade name was relatively reputable. This being the case, the use of the “Zhang Xiaoquan” trade name by the Shanghai Zhang Xiaoquan, which was set up with 90% of investment from the Shanghai General Store was an extended use of the trade name of a store with a long history in China of the Shanghai General

Store within a fair extent, and the Shanghai Zhang Xiaoquan did not use any unfair means to take advantage of Hangzhou Zhang Xiaoquan's registered mark and well-known mark. No matter whether it was used as a trade name or trademark, the generation of the repute of the words "Zhang Xiaoquan" had a long history. For that matter, with full deference to the history, and by the principles of fairness and honesty and credibility, the Shanghai Zhang Xiaoquan's use of the words "Zhang Xiaoquan" in its enterprise name did not constitute trademark infringement.

To regulate the market order, in the course of future development, the Shanghai General Store and Shanghai Zhang Xiaoquan should show full deference to the Hangzhou Zhang Xiaoquan's trademark, and should not further extend its use of the "Zhang Xiaoquan" trade name in their activities of assignment or investment; if the Shanghai General Store was no longer the shareholder of the Shanghai Zhang Xiaoquan, the latter should stop using the words "Zhang Xiaoquan".

2. Conspicuous use

The Shanghai General Store's conspicuous use of the words "Zhang Xiaoquan" or "Shanghai Zhang Xiaoquan" on its products or the package thereof was prior to the Hangzhou Zhang Xiaoquan's registered mark. Since its establishment, the Shanghai General Store had been using its trade name in good faith and in a conspicuous manner, and its enterprise name is in a simplified form, rather than intentionally and conspicuously using them on its products and package to grab the market after the Hangzhou Zhang Xiaoquan obtained its well-known mark, which was not subjectively in bad faith to take advantage of the Hangzhou Zhang Xiaoquan's registered mark and well known mark. For that matter, with full deference to the history, and by the principles of fairness and honesty and credibility, the Shanghai General Store's conspicuous use of the words "Zhang Xiaoquan" in the representation of its products did not constitute trademark infringement and unfair competition.

With the constant improvement of legal system and gradual development of the market economy in China, the use of the simplified enterprise name should be further regulated. To prevent the relevant section of the public from being confused about the products of the Hangzhou Zhang Xiaoquan and the Shanghai General Store in the market, the Shanghai General Store should use its reg-

istered enterprise name in the goods and services in a regulated manner.

Holding

1. The enterprise name used by the Shanghai General Store and Shanghai Zhang Xiaoquan did not constitute trademark infringement; but they should show full deference to the Hangzhou Zhang Xiaoquan’s trademark right, and their use of the “Zhang Xiaoquan” trade name should not be further extended.

2. The Shanghai General Store’s conspicuous use of the words “Shanghai Zhang Xiaoquan” or “Zhang Xiaoquan” did not constitute trademark infringement, but their registered enterprise name should be used in a regulated manner in the future.